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## THE FARMERS' ELEVATOR MOVEMENT

### I

It is common knowledge that a considerable portion of the product of our grain-growing states is shipped to the central markets each year for milling and for distribution to the final consumers. Statistics for the principal grain states show the following average percentages of the total crop to have been shipped out of the county where grown between 1900 and 1910:

TABLE I\*

State	Corn 10-Year Average Percentage	Wheat 10-Year Average Percentage	Oats 10-Year Average Percentage
Illinois.....	41	44	42
Iowa.....	20	33	35
Minnesota.....	12	67	29
North Dakota.....	2	79	15
South Dakota.....	23	75	23
Nebraska.....	38	64	37
Kansas.....	21	72	15

\* Compiled from yearbooks of the United States Department of Agriculture.

Most of the enormous quantity of grain shipped enters the market through elevators, one or more of which will be found at every railroad station in the grain-producing sections of the country. At present there are three types of elevators which perform the service. These are owned and operated by (1) independent dealers, (2) line elevator companies, and (3) farmers' elevator companies. The independent dealers are individuals, partnerships, or corporations owning one or at most only a few elevators. The farmers' elevator companies are corporations whose stockholders are chiefly farmers. Such a company as a rule confines its business to the locality in which its stockholders reside. A line elevator company is one having a number of country elevators located at various stations, frequently along one line of railroad. The number of elevators controlled by one company is at times very great, reaching six hundred or more.

The grain purchased by these country elevators must be disposed of in the primary markets. The largest line elevator companies, receiving vast quantities of grain from their various country elevators, can best accomplish this by selling the grain on the floor of the exchange through their own representatives. The independent dealers and the farmers' elevators, however, cannot sell their grain directly on the exchange, but must employ the services of commission men as intermediaries. For their services the commission men receive a straight commission of so much per bushel for all the grain they sell. Agents are sent out by them to solicit business from farmers' elevator companies and independent dealers. The grain thus sold on the exchange is purchased by millers or by the big terminal elevator companies.

The purchasers at the primary markets buy the grain on "to arrive" contracts or "on track." In the former case large sales of from ten to a hundred thousand bushels are made, the grain to be delivered within a specified time. The country elevators will then make shipments of grain which will be applied on the "to arrive" contracts as the grain reaches the market. In case the sale is made "on track" the grain is shipped from the country elevator unsold. Upon its arrival in the primary market it is sold while it is yet on track in cars. The person making the purchase is then given the car numbers, after which the railroad receives orders to switch the car to the purchaser's warehouse. The grain is there unloaded under the supervision of the state and the weighing is done by a state official. Payment is then made for the grain on the basis of these weights.

The country elevator, however, is not obliged to sell its grain immediately on the arrival of the grain at the primary market. If conditions for a sale appear to be unfavorable it may order its grain to be stored. This can be done in the so-called public elevators or warehouses. These elevators are large storehouses for grain in which an individual may have his grain deposited if he does not choose to dispose of it immediately. In return he receives a receipt specifying the amount, kind, and quality of grain which has been stored.

All public elevators are required by law to accept grain for storage to the extent of their elevator capacity. The grain may

then be kept in these storehouses as long as storage charges are paid. Whenever the owner of the grain desires to dispose of it he notifies his commission man, who then sells the grain "in store." The receipt of the company operating the public elevator is then indorsed to the purchaser, who thus receives a title to the amount of grain indicated by the receipt.

The evolution of the present system of marketing grain as outlined in the preceding paragraphs was one of constant struggle between conflicting interests. It is the purpose of this study to discuss the main events in connection with the rise of the farmers' elevator movement and its fight against the large line elevator companies.

#### A. LINE ELEVATOR SYSTEMS

A quarter of a century or more ago a large number of the country elevators were owned and operated by farmers' organizations, many of them on a co-operative basis. As a result of mismanagement and other difficulties practically all of them failed after but a few stormy years of operation. Almost the entire field of country grain-buying was then left to the independent dealers, who established several elevators at nearly every station in the grain-growing sections of the country.

Competition among these buyers generally became very keen. To increase the competition in good crop years there would frequently be found at stations a number of track buyers, popularly called "scoopers." These track buyers owned no elevators but purchased the grain in the farmer's wagon and had it loaded directly into cars. Under these conditions the farmer had no difficulty in disposing of his grain. When he arrived in town with grain to sell the different buyers would gather about his load and bid against one another. The farmer would sit quietly by and listen to the bidding, finally selling to the one offering the highest price.

Quite naturally this keen competition caused many financial failures among grain-buyers. They frequently paid a considerably higher price for the grain than it was actually worth. They also had a number of other difficulties with which to contend, which would occasionally bring about considerable losses when they had made their purchases on apparently safe margins. Losses would

at times result from dealing with dishonest commission men, through whom their grain was disposed of in the primary markets. Weighmasters at the large grain centers would also at times defraud these grain-buyers by giving them dishonest weights. Another loss, which at times was quite considerable, was sustained because of leaky cars, which would waste large quantities of grain while it was being shipped to the primary market.

Some of these difficulties were of such a nature that they could be partially remedied by united action. It was seen that inspectors and agents representing the country grain-buyers could do much to overcome the fraudulent practices of weighmasters and commission men. Steps could also be taken to require the railroad companies to furnish cars in proper condition for the transportation of grain so the dealers would not need to sustain the large losses resulting from leaky cars. State associations of grain-dealers were therefore formed in a number of states. These associations engaged private inspectors and weighmasters to look after the interests of their members in the large grain centers. These men were able to check to a large extent the abuses which had formerly been practiced, and, as a result, country grain-buying could be conducted on a safer basis, since a number of the elements of risk were largely eliminated. In addition to dealing with the railroads in regard to leaky cars the associations were also able to make advantageous shipping arrangements with them.

Having been successful to such a great extent along these lines, the associations attempted by united action to further the interests of their members along other lines. The track buyers had, as a rule, been looked upon with a great deal of disfavor by the elevator-owners. These track buyers were in the business only temporarily, when conditions were the most promising. They had very little capital invested and paid no taxes in the community. Therefore, in some respects, they possessed certain advantages over the regular grain-buyers, who had a considerable amount of capital invested in elevators and storehouses. It was but natural, therefore, that the regular grain-dealers should desire to eliminate the "scooper." In order to bring about this end, the associations passed resolutions asking commission men to refuse to handle grain from men who did

not own elevators. To lend emphasis to these resolutions they further resolved that all members should refuse to ship grain to commission firms which continued handling the business of track buyers. Fearing the ruin of their business, the commission men almost invariably refused to accept consignments from track buyers. To handicap further the latter, who might still make shipments to mills and other scattered customers, the associations managed to induce the railroads to formulate a rule refusing cars to shippers unless the individual requesting the car could show his grain on the right-of-way of the railroad ready for shipping at the time when the car was ordered. This, of course, was practically impossible for the track buyer to do, since it would require some time for the car to arrive after it was ordered, and the track buyer had no place in which to store his grain during that period.

Having thus almost completely eliminated the most irritating form of competition, it was an easy step for the associations further to restrict competition among their own members within limits which would give them a reasonable profit after paying expenses. Thus far the associations of independent dealers had been able to cope successfully with the trying situations in which they had found themselves.

During the late eighties, however, a situation was developing which was destined to revolutionize conditions in country grain-buying. Large grain syndicates were being formed. These were headed by exporters or commission firms and backed by large capital. Each syndicate as a rule operated along only one line of railroad. With this line of railroad the syndicate usually had some connections which would bring to it decided advantages in its shipments of grain. Frequently the managers and heaviest investors in the syndicates would be stockholders or directors of railroads.

Senator Robert M. LaFollette, in an address before the Senate of the United States, June 25, 1906, pointed out some of the close connections existing between certain large elevator concerns and some railroads. In the course of his remarks he quoted<sup>1</sup> the

<sup>1</sup> *Congressional Record*, XL, Part 10, p. 9093.

following letter which he had received from John W. Thomas, railroad commissioner of Wisconsin:

Instances of officers or employees being interested in shipment of freight over the line of railroad with which they are connected is illustrated by the Northern Supply Company located at Emery, Wisconsin, on the Minneapolis, St. Paul & Sault Ste. Marie Railway Company's line. At the same time I made the investigation over one-fourth of the stock of this company was owned by the claim agent and assistant solicitor of this railway company and one-fourth was owned by the son of the second vice-president and general manager of the road; three shares of stock were owned by the father-in-law of this son; the remaining shares were owned by two employees in the service of this company. The information furnished me showed that every private elevator company on this line had been forced out of business where it competed with the Northern Supply Company.

Mr. LaFollette also pointed out that Mr. Armour, of the Armour Elevator Company, was one of the heaviest stockholders and one of the directors of the Chicago, Milwaukee & St. Paul Railroad.

As a result of these connections with the railroads the syndicates became favored shippers, receiving more prompt and satisfactory service as well as cheaper rates than their competitors. Investigations by the Interstate Commerce Commission revealed another type of railroad favoritism. It was shown that certain large grain concerns would receive notice of a proposed advance or cut in freight rates on grain on the Chicago, Milwaukee and St. Paul Railroad. These notices would be given some time before the change in rates would take effect, and the grain-dealers would be able to profit by gauging accordingly their purchases and sales of grain as well as their shipments.

In addition to their numerous country elevators the syndicates also, very frequently, own large storage elevators at the grain centers or primary markets. Their grain may then be shipped directly to the terminal elevators, thus dispensing with the services of commission men and thereby avoiding the regular commission charges of 1 cent per bushel which is paid by individual dealers.

These syndicates found the way toward a control of the grain marketing already well prepared for them by the grain-dealers' associations mentioned above, and with their increased advantages and powers they could soon make the control complete. These

syndicates operated so many elevators that by acting together they could practically dictate prices to be paid for grain. Even though they entered a point already provided with elevators they soon gained sufficient control to determine what price the farmer should be paid for his grain, in so far as it is possible for a monopoly to fix prices. Before locating an elevator at such a point, the syndicate would usually offer to buy an elevator from a dealer already established there, offering him a rather low price for his property. If the dealer refused to sell they would threaten to build a new elevator and "run him out." The threat would also, as a rule, be fulfilled, and the old dealers would be forced either to quit business or to work in harmony with the syndicate.<sup>1</sup> Hundreds of grain-dealers in the upper Mississippi Valley were forced into compliance with the requests of the syndicate when financial ruin stared them in the face. Some had the courage to keep up the hopeless struggle with the syndicates until their private fortunes were practically swept away, after which they were forced to give up the vain attempt and retire from the grain business. The syndicates, however, usually wished to retain one or more independent dealers at each station after these had been brought into perfect submission. The appearances of competition would thus be kept up and less opposition to the situation would be developed, while perfect control would still be retained in the hands of the syndicates.

When the control of the country grain-buying by the large syndicates was complete, conditions in the industry had undergone a radical change. The farmer with grain to sell was no longer master of the situation. Instead of having a large number of grain-buyers gather about his load, when the grain was brought to town, eagerly outbidding one another to secure the coveted grain, he was now forced to go to the offices of the different elevators to inquire as to the price of grain. At each of these places he would receive the same report. The managers of the different elevators seemed no longer desirous of purchasing the farmer's grain, but, on the other hand, would appear sullen and indifferent. It was natural that no particular desire for the grain should be manifested as the profits would usually be pooled, the returns to the individual

<sup>1</sup> See *American Co-operative Journal*, March, 1906, p. 9.



grain-buyer being practically the same regardless of who might make the purchase.

Being owners of warehouses at the primary markets, the line elevator companies had a great advantage over other grain-buyers. Whenever it became necessary for them to store their grain they would store it in their own warehouses and so pay storage charges to themselves. Other grain-buyers, however, having no warehouses, would be forced to pay storage charges to their own competitors when it became necessary for them to store their grain. Mr. John Hill, Jr., stated the situation very clearly in a letter<sup>1</sup> dated January 2, 1907, written to Governor Charles S. Deneen, Attorney-General W. H. Stead, and State's Attorney John J. Healy:

In 1887 or 1888 the late P. D. Armour conceived the idea of combining the buying and selling of grain with the public warehousing of grain, so that he, as a grain-dealer, would be paying the storage to himself as a warehouseman, and all competitors who were forced to use the public facilities provided by the state for the storage of grain would have to pay tribute to Armour if they used the houses which he was licensed to operate. Within five years Armour and the others who followed his plan had driven out every public warehouseman and since 1892 Chicago has not had a real public warehouse for the storage of grain.

The public warehouses operate under licenses received from the state. They are created for the benefit of the grain trade, and should not be so operated as to give undue advantage to their own managers, who are supposed to be storers of grain and not dealers in grain. Therefore, in 1896, Judge Tuley granted an injunction which prohibited public warehousemen from storing and mixing their own grain with that of others who made use of the public warehouses provided by law. In affirming this decision the Supreme Court of Illinois made the following comment:<sup>2</sup> "The public warehouses established under the law are public agencies, and the defendants, as licensees, pursue a public employment. They are clothed with a duty toward the public. The evidence shows that defendants, as public warehousemen storing grain in their own warehouses, are enabled to, and do, overbid legitimate grain-dealers by exacting from them the established rate for storage while they give up a part of the storage charges when they buy or sell for themselves. By this practice of buying and selling through their own elevators the position of equality between them and the public whom they are bound to serve is destroyed, and by the advantage of their positions they are enabled to crush out, and have nearly crushed out, competition in the largest grain market in the world."

<sup>1</sup> *Ibid.*, January, 1907, p. 13.

<sup>2</sup> *Central Elevator Co. v. The People*, 174 Ill. 208.

The quality of different lots of a given kind of grain will at times vary considerably. Owing to these variations different prices will be quoted on grain according to the different grades into which it has been found convenient to classify grains. This system of grading grains gives to the warehousemen, who are also dealers in grain, excellent opportunities to reap enormous profits through fraudulent grading. The system of "rigid and easy inspection" is in common practice. By this is meant rigid inspection into an elevator and easy inspection out. Or, in other words, grain received at a warehouse is graded as low as possible, at times a grade or more lower than it should be; but, on the other hand, when grain is shipped from a warehouse it is graded as high as possible. Thus a person who stored grain at such a warehouse will receive an inferior quality in return. This will leave the very best grain in the possession of the warehousemen to be disposed of by them at the top prices.

This condition was investigated by a committee appointed by the Bankers' Association of North Dakota. This committee gave the report (Table II) showing the business of a single elevator for a period of three months.

TABLE II

	Receipts Bushels	Shipments Bushels
No. 1 Northern.....	99,711.40	196,288.30
No. 2 Northern.....	141,455.10	467,764.00
No. 3 Northern.....	272,047.20	213,459.30
No. 4 Northern.....	201,267.20	None
No Grade.....	116,021.10	None
Rejected.....	59,742.30	None
	890,245.10	877,512.00
On hand, estimated.....	.....	12,733.10
		890,245.10

The profits to this one elevator from thus raising grades during this period of three months were said to be \$83,720.69.

While the foregoing figures are not official, they have, however, been quoted by close students of the grain situation, and have been accepted by them as illustrating conditions as they exist. Senator

McCumber of North Dakota, who has carefully studied the question of grading grain for a number of years, quoted the figures in an address before the annual convention of the Farmers' Grain Dealers' Association of Iowa, in 1908. They were also quoted by the United States Senate Committee on Agriculture and Forestry in its report<sup>1</sup> on "Inspecting and Grading Grain Entering into Interstate Commerce."

The following quotations are also taken from the Senate report:

That the inspecting and grading departments at these great terminals are subservient to, and dominated by, the great elevator interests is established beyond question.

The terminal elevators buy in the grain, generally at a grade less than its true grade, mix it with other inferior grain and sell the same out at a grade higher than the true grade, thereby making the value of two grades.

The independent buyers at the country elevators dare not trust their own judgment in the matter of grades, because they have no confidence in the grades at the great terminal markets where they must dispose of the grain purchased. From experience, however, they know that on the whole the grain will be graded lower than it is entitled to, and they are therefore compelled to resolve every doubt against the producer.

In those sections where the great terminal elevators have their lines of smaller elevators throughout the country they are enabled not only to fix the price, but in many instances give instructions as to what the grain would probably grade.

When the syndicates thus once secured a foothold they were able to reap enormous profits with which they could further extend their operations, and thus, through harmonious action, which was secured by means of the various grain-dealers' associations, could practically monopolize the grain-buying business. The control of some of the largest of these line elevator companies extended over very extensive territories. Mr. Pettit, president of the Peavy Grain Co., testified before the committee of the Interstate Commerce Commission,<sup>2</sup> which was investigating conditions in the

<sup>1</sup> Senate Report No. 731, 60th Cong. 2d sess., January, 1909.

<sup>2</sup> The investigation conducted by the committee of the Interstate Commerce Commission was held in response to a Senate resolution introduced by Senator LaFollette which passed the Senate of the United States on June 25, 1906.

The committee conducted hearings at Chicago, Kansas City, Omaha, Des Moines, Milwaukee, Minneapolis, and Duluth, October 15 to November 23, 1906. Astonishing

grain trade, that the Peavy interests had something over six hundred line elevators throughout Minnesota, North Dakota, Nebraska, Iowa, and Kansas.

The methods by which these line elevator companies were able to carry out their various plans by means of the associations of grain-dealers are clearly set forth in the case of *State v. Omaha Elevator Co.*<sup>1</sup> The referee's findings of fact established the existence of the Nebraska Grain Dealers' Association for the advancement and protection of the common interests of those regularly engaged in the grain business in the state. Of the twelve hundred grain-dealers in Nebraska on April 1, 1905, about seven hundred belonged to the association, and about two hundred more were in sympathy with it. Membership was open to "any person, firm, or corporation conducting a reputable, regular, and continuous business of buying and selling grain, and having proper facilities for handling same," and to "any regular grain-receiver, track buyer, terminal elevator, or commission merchant who conducts a reputable business and confines his business to the regular elevator operators. . . . " A governing board, consisting of the president, secretary, and three members of the association, determined the eligibility of members, fostered the interests of the association in all ways, carried out its policy, and exercised absolute authority over individual members in all matters pertaining to the association. The referee's report continues: "According to the evidence introduced by the state (there was no evidence introduced by the defendants) the main objects of said association were to fix, regulate, and control the prices of grain in this state; to put an end to competition in the grain business; and to drive out of business all irregular and independent dealers in grain. To accomplish the objects of said association as

revelations were made during the hearings, which showed the close connections existing between various railroad and elevator companies, as well as the methods practiced by the gigantic grain combines in crushing out competition and thus virtually monopolizing the country grain-buying business.

Congress resolved to have three thousand copies of the testimony printed for disposal by its members. The testimony was then printed as Senate Document No. 278, 59th Cong., 2d sess.

<sup>1</sup> 75 Nebraska, 655.

above set forth, various expedients were resorted to, some of which were as follows: (a) A price committee, consisting of persons chosen from the five leading corporation members of said association, was formed, whose business it was to fix the prices which should be paid for grain by the various members of said association throughout the state, and the other regular dealers who worked in harmony with said association. All such members and persons were notified by card what such prices were, and as members of such association and regular dealers they were expected and required to fix their bids for grain on the basis of the prices sent to them on the cards, and they were not to pay any more for grain than other regular dealers in the same locality. For the purpose of facilitating the business, the state was divided into thirteen districts, and it was the duty of some member of the association, selected for that purpose on account of his or its superior location and facilities for that purpose, to send cards to all the regular dealers in his district. The prices were changed as often as the fluctuations of the market made it necessary, sometimes every day, and sometimes less often. The new prices always went into effect on the morning of the day succeeding the issuance of the cards, and never on the same day. In said manner and by said method uniformity of prices was maintained among the members of said association and other regular dealers over the state. Regular dealers were those in harmony with the purposes and objects of the association. (b) In a town where there were two grain-dealers, one or both of whom were 'irregular' and refused to abide by the price sent out on cards as aforesaid, the association resorted to various methods to force such dealers to become 'regular.' The committee of the association, or someone appointed by it for that purpose, would send some person or persons to visit such irregular dealers, whose business it was to prevail upon such dealers to agree to abide by the prices fixed as aforesaid, and also to agree upon a division of the grain marketed at said station between them so that there would be no competition between them in the purchase of such grain. In this the person or persons so sent out were generally successful. If a dealer at any point persisted in being 'irregular,' he was summarily dealt

with according to circumstances. If weak financially, prices would be raised<sup>1</sup> on him so that he could not make any money and he would be forced to surrender or get out of business. If he was strong financially, so as to make such a proceeding as that just named unprofitable for the association, the bidders in the market where he sold would be prevailed upon to bid him less than market price for his grain so that he could not sell for as much as the 'regular' dealers. By such means the 'irregular' dealers were generally either driven out of business or forced to become 'regular.' (c) The association also made it a part of its business to look after legislation, in order to prevent any laws from being passed which were unfavorable to the interests of 'regular' dealers. The testimony shows that during the 1903 session of the legislature several thousand dollars were spent by the association through its agents in trying to prevent unfavorable legislation. (d) The farmers' grain and elevator companies were the especial aversion of the Nebraska Grain Dealers' Association and the latter exerted themselves greatly to prevent the former from getting into, and doing business in, this state. The railroad companies were labored with to induce them to refuse sites for elevators to be put up by farmers' elevator companies. The members of the association and other regular dealers refused to deal with farmers who shipped their own grain, or with the farmers' elevator companies, and also with any person who would deal with such irregular dealers. The evidence shows that by such means as the foregoing and other means not herein mentioned the said Nebraska Grain Dealers' Association attempted to, and did, in a large measure, fix and control the prices paid for grain throughout this state; prevented competition in the grain business; and largely monopolized the grain business in this state." The court upheld the findings of the referee.

The organization and work of the Nebraska Grain Dealers' Association was similar to the organization and work of other grain-dealers' associations found in other states. These asso-

<sup>1</sup> The line elevators would bid so high a price that losses would result from grain purchases. If no grain was purchased by a competitor, his idle elevator would still involve a loss. If he were weak financially, a greater loss would result in either case than he could stand.

ciations consisted of a majority of the grain-dealers throughout the different states in the grain-producing section of the country. Included in them were the large line elevator companies together with smaller line companies and independent dealers. The policies of the associations, however, were dictated by the large line companies. It is interesting to note in the case just quoted, *State v. Omaha Elevator Company*, that the important price committee should consist of "persons chosen from the five leading corporations members of said association." The smaller line companies and the independent dealers who had joined the association had been forced into subjection by the gigantic corporations and thus became tools, ever subservient to the dictates of their masters.

Interesting testimony was given before the Interstate Commerce investigation committee<sup>1</sup> by Mr. A. J. Hoskins, the price agent for a group of 39 elevator companies (controlling 900-1,000 elevators) in Minnesota, South Dakota, and North Dakota. Daily prices were sent to the agent by a committee from the companies, and these prices were in turn communicated by him to the elevators. Mr. Hoskins was also responsible for the enforcement of the regulations with regard to excessive purchases of grain. The percentage of grain to which each company was entitled at each station was first decided; then, after each buying company had rendered to the agent a statement of the amounts purchased, he figured the excess of those who had bought more than their allotted quantity. Penalties were exacted at the rate of  $2\frac{1}{2}$  cents on wheat; in some cases 2 cents on barley and rye;  $3\frac{3}{4}$  cents on flax; and 2 cents on oats. The sums received from these penalties were distributed, according to the pre-arranged percentages, among those who had failed to secure their share of grain. This was done for each station individually. The yearly average of penalties collected was \$16,000, involving about two hundred stations.<sup>2</sup>

<sup>1</sup>Senate Document, No. 278, 59th Cong., 2d sess., p. 930.

<sup>2</sup>The following agreement, quoted from the testimony before the committee of the Interstate Commerce Commission (*ibid.*, p. 970), will show the type of arrangements made at various stations to prevent competition in grain-buying:

"Memorandum of agreement at Worthington, Minnesota, effective August 1, 1900.

"H. E. Torrence, Swedish Mercantile Co., Hubbard and Palmer, Peavy Elevator

Arrangements of this kind, since they took away all inducements to the grain-buyers to outbid one another, served to monopolize completely the grain-buying business at a given point. The return to a given grain-buyer would be practically the same whether he or his competitors should purchase a given lot of grain, and hence there would be no motive to prompt him to compete actively for the grain.

During the late nineties, and considerably earlier in many sections, the grain-growing states were completely dominated by the line elevator companies. The farmers had at first been deceived by these companies. Higher prices for grain were offered by them than their competitors could afford to pay. They maintained that through the advantages they enjoyed from conducting their business on a large scale, and as a result of the special privileges they enjoyed from the railroad companies, they were enabled to and did pay the farmer a higher price for his grain than could possibly be paid by those who were conducting the grain-buying business on a smaller scale. The higher prices, however, were paid only in the communities in which they met with active competition; and they were soon able to drive out of business their small competitors who had only very limited capital.

Co., H. N. Douglas, St. John Bros., each to receive one-sixth of the entire receipts of all grain handled at Worthington.

"Prices to be made by H. N. Douglas, but are to be as nearly as possible on the following basis:

"Wheat at 12 cents and fraction off Minneapolis delivered close; oats at 6 cents and fraction off Minneapolis; corn at 10 cents off Minneapolis; timothy at 65 cents per cwt. off Chicago.

"Penalties to be: Wheat, 2½ cents; oats, 1½ cents; corn, 2 cents; barley, 3 cents; rye, 4 cents; flax, 4 cents; timothy, 10 cents. Full rates of storage, as shown on standard storage tickets, to be collected.

"Minimum dockage to be one pound per bushel, and a sieve test to be made of all wheat showing over two dockage. All parties agree not to pay over list.

"Closed house to get one-half penalty.

"Statements to be rendered each week to H. N. Douglas, who is to render monthly reports to F. R. Durant.

"The books of any party to this agreement are to be subject to examination at any time. This agreement to continue in effect for one year from date, provided, however, that any party may withdraw by giving fifteen days' notice in writing to that effect, to each party to this agreement, and by paying the penalties to the expiration of said fifteen days."



After the line elevator companies had gained complete control, prices no longer continued at their former high level. The farmers then realized that these companies were not the Good Samaritans which they had at first represented themselves to be. When the farmers understood that the grain business was in the grip of a monster combine they made determined efforts to free themselves from its clutches.

Many farmers then planned to ship their own grain directly to commission firms instead of disposing of it through the line elevators. This simple plan, however, was in most cases confronted by an obstacle which proved to be insurmountable. As mentioned before, the railroads had been prevailed upon to deny cars to all prospective shippers of grain who were unable to show the grain on the right-of-way at the time the car was ordered. This was, of course, impossible for the farmer-shipper to do. He could not well bring several wagon loads of grain to town at the time he ordered his car when it might be necessary for him to wait a number of days before the car would be received. Neither could he store his grain on the right-of-way since he had no facilities for the storing of grain there.

Before the line elevator companies had become very powerful a considerable amount of direct farmer shipping had taken place. A number of men in the central grain markets had built up extensive businesses through the buying of grain directly from the farmers. These men found their business completely ruined by the refusal of the railroad companies to furnish cars to farmers. One of these men, a Mr. Carr, a member of the Chicago Board of Trade, testified before the committee of the Interstate Commerce Commission. He told how he went to the man who had charge of distributing cars for the Chicago & Eastern Illinois Railroad to request him to furnish a car to a man who wished to ship grain. Mr. Carr received the following reply: "If he is a mere farmer he stands as much show of getting a car as a rabbit."<sup>1</sup>

A short time ago [Mr. Carr continued] I sent a man down to Oklahoma and was on the verge of getting about 2,000,000 bushels of wheat in the vicinity of Hennessey and Kingfisher; and when we came to order cars from the Rock

<sup>1</sup> Senate Document, No. 278, 59th Cong., 2d sess., p. 27.

Island road we couldn't get them, because they decided that the farmer shipper must have his grain in sight inside of the corporate limits of the station before they would entertain an order for a car. How preposterous that a man should have ten or fifteen or twenty wagon loads of grain standing in the street and perhaps remain there for two or three weeks before his car arrived. The result was that I did not get a bushel of that 2,000,000 bushels.

The Interstate Commerce Commission did not find this condition to be peculiar to Illinois and Oklahoma. Similar instances could be found in most localities. The farmer who then sought to avoid selling his grain at an extremely low price to the line elevators found great difficulties confronting him. Even though he should be able to secure a car he had no assurance that he was beyond the influences of the associated grain-buyers. He would very likely find great difficulties in getting a commission firm in the central market to dispose of his grain for him. If, finally, commission merchants could be persuaded to handle the grain, the farmer might still fail to dispose of his grain in a satisfactory manner. Frequently the grain would be sold at prices considerably below the regular market price of the kind and quality of grain which the farmer had shipped. The commission men feared to dispose of the farmer's grain to the best advantage, if at all, owing to the threats of the regular grain-dealers' associations to withdraw all their business from the commission merchants who persisted in receiving grain in this irregular fashion. As the amount of the direct farmer-shipping was hardly sufficient to maintain a commission firm, and the obstacles were so great that the field seemed more likely to be reduced than extended, we see that these men had a strong incentive to refuse to handle the grain sent to them by farmers. The farmers' problem could not then be readily solved by direct farmer-shipping. The controlling influences of the large elevator interests extended farther than was at first supposed.

#### B. DEVELOPMENT OF LOCAL FARMERS' ELEVATORS

It would seem that the next move which the farmers would make in their attempts to free themselves from the grip of the large grain combine would be to organize farmers' elevator com-

panies and thus, through united action, purchase their own grain and thereby assure themselves of a fair market price. The farmers, however, were very reluctant to adopt this measure as a remedy. The experiences of earlier farmers' elevator companies, as has been shown, had been distinctly discouraging.

It was easy enough for the big line companies to compete with the farmers' organizations. Backed by large capital the former could without embarrassment resort to the familiar tactics of price-raising. These advanced prices the manager of the farmers' elevator could not meet, for to do so would mean additional expense to the farmers instead of dividends. At the same time the farmers, shareholders in these very elevators, were sorely tempted by the high prices offered by the big companies and often sold to them. The additional cent per bushel meant a considerably increased income to each man, and the individual would feel that the small amount of grain he contributed could not exert an important influence on the fortunes of the farmers' company. Thus the small concern did business at a continual disadvantage and eventually gave up the fight. Then the big companies promptly lowered prices and thus reimbursed themselves for the previous losses.

This seemingly shortsighted policy on the part of the farmers was but natural. Combination represents an advanced stage of business sophistication and one which the farmers had not reached. Shrewd and experienced business men who have attempted to further their own interests through united action under various pooling arrangements have been able only with the greatest difficulty to maintain the pool for more than a brief period. It is small wonder, then, that the farmer with his strongly individualistic training yielded the ultimate advantages of combination under the stress of its immediate exactions.

Furthermore, the farmers' elevator companies could as a rule secure sites for their elevators only with the greatest difficulty. The railroads appeared to be under the influence of the regular grain-dealers and usually made every possible effort to prevent the establishing of farmers' elevators by the refusal to grant sites for the proposed elevators. It was only at competing points, where a railroad hoped that the erection of a farmers' elevator

on its line might enable it to secure some of the traffic which would otherwise go to a rival company, that railroads would grant sites for farmers' elevators without a great deal of difficulty and delay. The appeals which the farmers made to the state Railroad Commissions were often fruitless. The Iowa Railroad Commission, for example, opposed the establishment of additional elevators at a point which was already well supplied. It assumed that the presence of two or more elevators insured sufficient competition at a given point, but failed to look into the relations which might exist between the owners of these apparently competing elevators.

The above reasons account to a large extent for the difficulties in establishing farmers' elevators and the failures of so many of the early companies. As a result we find that there were but very few farmers' elevators in operation in Illinois and Iowa during the late nineties.

Beginning in 1889, however, a very important plan was being developed and worked out by the farmers living near the little village of Rockwell, in Cerro Gordo County, Iowa. This plan, simple as it was, was destined to revolutionize the grain-buying business. It injected a condition into the business which had not been foreseen by the managers of the line elevator companies, whose work of monopolizing the country grain-buying had, up to that time, been going on so successfully.

The farmers about Rockwell were familiar with the histories of many earlier farmers' elevator companies. They knew how these companies had been ruined by the severe competition with the large line companies. These farmers realized when they organized their elevator company that they would be required to meet the same type of competition. They also knew that, unless they would be able to guard themselves better than the other farmers' elevator companies had done, they would be doomed to the same fate as had befallen the earlier experiments.

The farmers about Rockwell, being thus familiar with conditions, had included in their plan of organization an arrangement by which their competitors would be unable to bring about the ruin of the farmers' company, even though, by outbidding it, they

could prevent the farmers' company from securing a single bushel of grain. The novel feature introduced by this company into its by-laws was the so-called "penalty clause," more properly termed a protection clause.

The "penalty clause" provided that the members were to pay into the treasury of the company a commission of one-half cent per bushel for every bushel of grain sold either to their own company or to their competitors. The half a cent a bushel which the farmers paid when they sold the grain to their own company represented approximately the cost of handling the grain. It was estimated that this income would be sufficient to enable the company to continue in business. In order not to be deprived of this income, even though some members of the company should sell their grain to a competitor who would bid so high that buying the grain would mean a loss, the company definitely provided that its members should pay into its treasury one-half cent for every bushel of grain which they sold to a competing elevator.

Under this arrangement the farmers' company would not be so greatly tempted to bid a high price against a competitor when doing so would probably involve a loss. Neither could the company be ruined by the high prices paid by a competitor, even though these high prices would prevent the farmers' company from securing any grain. The income of the company would still continue to be as great as before, while its expenses would be slightly reduced. In reality, its condition would be improved by its being outbid by its competitor for the grain marketed by its own members.

With the untried penalty clause as the only weapon upon which they could rely, the farmers of Rockwell entered the fight against the line companies. The latter tried their old method of out-bidding the farmers' company. This, however, did not bring about the ruin of the company as it had done in previous instances. Other plans were also tried, but proved to be equally unavailing. The competition continued as fiercely as ever until finally the ingenuity of the line elevator companies was exhausted and they abandoned the struggle in despair. The fight had been so severe, however, that it was only the extraordinary determination of the

farmers, and their willingness to impose upon themselves a sufficient tax, in the form of the penalty mentioned above, to support their own organization, which permitted the farmers' elevator company to live through its struggle. One observer has described the incident in the following words: "There in Rockwell, a little village of less than five hundred souls, was waged one of the fiercest commercial battles ever fought on American soil, every trick of trade known to the modern political jackal and commercial bandit was tried and failed, and a final and complete victory won by the farmers of Cerro Gordo County."<sup>1</sup>

Although the grain combine had been defeated in its struggle with the farmers' elevator at Rockwell, it had not put up the fight entirely in vain. The contest had been so bitter that farmers in other localities would hesitate before engaging in a similar one. The line companies for a time attempted to ignore the incident at Rockwell and made light of it. But eventually<sup>2</sup> the farmers throughout the state, who were being oppressed by the powerful elevator interests, learned more definitely how the battle had been fought and won by the farmers at Rockwell, and decided to start companies, organized in the same manner, at a number of stations.

One after another, these companies were organized in the states of Iowa and Illinois. When upward of a dozen companies had been organized in each of the above-named states, the large elevator interests realized that some effective means would have to be adopted to check the spread of the movement or they themselves would find their own businesses ruined.

One method adopted was the circulation of literature which was designed to bring about the opposition of business men to farmers' elevators. It was stated that if farmers started operating elevators they would soon undertake to operate stores of various kinds and would also sell lumber and other commodities. Thus the movement would ultimately bring about the ruin of all men engaged in business at the various places where farmers'

<sup>1</sup> *American Co-operative Journal*, September, 1907, p. 16.

<sup>2</sup> The Rockwell company was organized about 1890, but the plan was not very generally considered for nearly ten years.

elevators happened to be located. If these arguments did not prove effective in alienating merchants from the farmers' elevator movement, the line elevators would at times threaten to start stores which would sell goods at cost and thus ruin the merchants who dared encourage farmers' elevators.<sup>1</sup>

False reports were also widely circulated telling of various great financial difficulties in which certain farmers' elevator companies had found themselves after a brief period of operation. Numerous failures were also reported.

If these methods failed to prevent the organization of farmers' elevator companies, the line interests sought to command the situation by preventing the farmers' company from marketing its grain. As the big companies could not directly control all of those dealing in grain at the terminal markets, it was necessary for them to resort to the boycott to bring their plans to a successful termination. This had been the most important method of attack about 1901 or 1902.

Letters were written to the commission men in the large terminal grain markets. It was stated that no members of the grain-dealers' associations would consign any grain to commission men who would handle any grain from farmers' elevator companies. As practically all country grain-buyers, with the exception of the handful of farmers' companies, were members of one or another of the large grain-dealers' associations, the threat contained in the letter would, apparently, mean almost certain ruin to any commission firm which would dare to continue the practice of accepting shipments from farmers' elevator companies.

This method of fighting the companies was the most successful one adopted by the associated grain-dealers. For a time it seemed as though the farmers' elevator movement was again doomed to failure in spite of the bright prospects of but a short time before. The farmers' elevator companies would write to one commission firm after another requesting acceptance of their shipments of grain. Almost invariably the requests would be refused, the commission men giving now one excuse and now another. At times, however, the commission men would frankly state that they dared

<sup>1</sup> Such an "elevator store" was actually started at Lowry, Minnesota.

not accept grain from any other than members of the grain-dealers' association.<sup>1</sup>

The investigation conducted by the committee of the Interstate Commerce Commission revealed even more clearly the work of the associated grain-dealers, especially that which had been done by Mr. George A. Wells, secretary of the Iowa Grain Dealers' Association. In the testimony of Mr. Wells several letters were produced which he had written to commission men telling of his opposition to farmers' elevator companies in general and especially to those having the penalty clause included in their by-laws.<sup>2</sup>

The associated grain-dealers finally made their boycott so nearly complete that any commission firm accepting grain from farmers' elevator companies could not expect to receive any considerable amount of grain from members of the large grain combine, and usually it received nothing from such companies. Names of the boycotted commission firms were sent to the members of the grain-dealers' associations. These members then very consistently refused to consign their shipments of grain to such firms, whose business suffered so much that one after another they ceased to do business with the farmers' elevator companies. In the Interstate Commerce Commission inquiry, it was testified that at one time

<sup>1</sup> The following quotation in the case of *D. H. Curry & Co. v. The Illinois Central Railroad Company* bears upon the above point: "A number of commission companies in the city of Chicago, where the Farmers' Grain and Coal Company were in the habit of shipping a large amount of grain, and grain-buyers at Decatur and other places, where they had shipped some grain, after doing business a short time with the Farmers' Grain and Coal Company, would notify the Farmers' Grain and Coal Company that they were unable to continue to handle their grain, and asked them to ship to some other person or company. This is true in a number of instances. . . . And in almost every instance, as will be seen by copies of letters which are made a part of this opinion, they refused to do business with the farmers' elevator companies for the reason that they thought it would be more advantageous to them to handle the business of the members of the Illinois Grain Dealers' Association than it would to handle the business of the farmers' elevators, and they could not do both. . . . From the evidence shown, we are led to believe that there was some kind of an understanding between the complainant, D. H. Curry & Co., and members of the Illinois Grain Dealers' Association, that the members of that association were not to handle any of the grain of the farmers' elevators" (*Report of the Illinois Railroad and Warehouse Commission*, 1903, pp. 24-28).

<sup>2</sup> Senate Document, No. 278, 59th Cong., 2d sess., pp. 672, 679.



there were only two grain commission houses,<sup>1</sup> both in Chicago, that would handle grain for farmers' elevators. This narrow market put the farmers' elevators to a considerable disadvantage. Furthermore, they did not know but that these two firms would also at any time be brought under the control of the regular grain trade. Had the grain combine been able to induce these firms to reject all farmers' elevator shipments, it is quite likely that the history of the farmers' elevator movement would have to be recorded in a very different manner from the way in which we can now write it. It is quite possible that utter failure would have ended the efforts of the farmers to fight the powerful grain interests which were collecting their annual toll from them through the low prices which were paid the farmers for their grain.

Yet a large number of farmers had come to a full realization of their situation. They felt that they were the victims of a grave injustice. They had entered the fight with a determination to win, and it is possible that this dogged determination would have enabled them to surmount even the greatest obstacles which it would have been within the power of the grain-dealers to put in their way. Had one plan failed, no doubt another would have been tried. But, be that as it may, the inability of the grain-dealers to shut off completely the grain market from the farmers' elevators was a decided advantage to the farmers.

OSCAR N. REFSELL

JEWELL, IOWA

<sup>1</sup> Lowell, Hoit & Co. and Eschenberg & Dalton.